

COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF NATIONAL CITY

Financial Statements and
Supplementary Information

Year ended June 30, 2007

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Financial Statements and Supplementary Information

Year ended June 30, 2007

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Financial Statements and Supplementary Information

Year ended June 30, 2007

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Board of Directors
Community Development Commission of the City of National City
National City, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Community Development Commission of the City of National City (the "Commission"), a component unit of the City of National City, California as of and for the year ended June 30, 2007, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Community Development Commission of the City of National City. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund financial of the Community Development Commission of the City of National City at June 30, 2007, and the respective changes in financial position and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Commission has not presented *management's discussion and analysis* that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements. The information identified in the accompanying table of contents as *required supplementary information* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors
Community Development Commission of the City of National City
National City, California
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In accordance with *Government Auditing Standards*, we have also issued a report dated February 14, 2008 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Nayer Hoffman McCann P.C.

Irvine, California
February 14, 2008

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and investments (note 5)	\$ 18,191,055	155,734	18,346,789
Cash and investments with fiscal agent (note 5)	4,856,452	1,719,118	6,575,570
Receivables:			
Accounts	215,691	381	216,072
Interest	189,261	-	189,261
Taxes	369,788	-	369,788
Loans	2,567,897	-	2,567,897
First time homebuyers loans	1,210,806	-	1,210,806
Prepaid expense	-	68,502	68,502
Advance to the City of National City	235,000	-	235,000
Deposits	18,835	86,576	105,411
Land held for resale	12,905,136	-	12,905,136
Capital assets (note 6):			
Nondepreciable capital assets	2,050,000	528,382	2,578,382
Depreciable capital assets, net of accumulated depreciation	826,665	8,282,357	9,109,022
Total assets	43,636,586	10,841,050	54,477,636
<u>Liabilities</u>			
Accounts payable and other liabilities	4,741,645	230,476	4,972,121
Accrued salaries and benefits	52,023	-	52,023
Accrued interest payable	166,645	-	166,645
Unearned revenue	922,500	-	922,500
Noncurrent liabilities (note 7):			
Due within one year	2,126,149	168,586	2,294,735
Due in more than one year	41,860,687	2,853,463	44,714,150
Total liabilities	49,869,649	3,252,525	53,122,174
<u>Net Assets</u>			
Invested in capital assets, net of related debt	2,876,665	5,788,690	8,665,355
Restricted for low and moderate housing	7,261,294	1,799,835	9,061,129
Unrestricted net assets (deficit)	(16,371,022)	-	(16,371,022)
Total net assets (deficit)	\$ (6,233,063)	7,588,525	1,355,462

See accompanying notes to basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Activities

Year ended June 30, 2007

		Program Revenues			
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Total Program Revenues
Governmental activities:					
Low and moderate housing	\$ 392,585	-	-	-	-
Community development	18,295,061	20,874	10,439,998	-	10,460,872
Interest on long-term debt and related charges	<u>2,092,690</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>20,780,336</u>	<u>20,874</u>	<u>10,439,998</u>	<u>-</u>	<u>10,460,872</u>
Business-type activities:					
Low and moderate housing	1,857,687	995,048	960,472	-	1,955,520
Interest on long-term debt and related charges	<u>202,051</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>2,059,738</u>	<u>995,048</u>	<u>960,472</u>	<u>-</u>	<u>1,955,520</u>
Total primary government	<u>\$ 22,840,074</u>	<u>1,015,922</u>	<u>11,400,470</u>	<u>-</u>	<u>12,416,392</u>

General revenues:

Tax increment

Investment income

Other

Total general revenues

Change in net assets

Net assets (deficit) at beginning of year

Net assets (deficit) at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
(392,585)	-	(392,585)
(7,834,189)	-	(7,834,189)
(2,092,690)	-	(2,092,690)
(10,319,464)	-	(10,319,464)
-	97,833	97,833
-	(202,051)	(202,051)
-	(104,218)	(104,218)
(10,319,464)	(104,218)	(10,423,682)
13,543,245	-	13,543,245
869,016	72,847	941,863
835,945	-	835,945
15,248,206	72,847	15,321,053
4,928,742	(31,371)	4,897,371
(11,161,805)	7,619,896	(3,541,909)
\$ (6,233,063)	7,588,525	1,355,462

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Balance Sheet - Governmental Funds

June 30, 2007

	Special Revenue Funds			
	Community Development Block Grant	Section 8 Housing Assistance	Home Loan Program	HOME Program
<u>Assets</u>				
Cash and investments (note 5)	\$ 1,394,745	-	2,944,322	1,515,878
Cash with fiscal agent (note 5)	-	-	-	-
Receivables:				
Accounts	-	-	-	-
Interest	-	-	-	-
Taxes	-	-	-	-
Loans	-	-	426,970	-
First time homebuyers loans	-	-	-	773,147
Due from other funds (note 4)	-	-	-	-
Advance to the City of National City	-	-	-	-
Deposits	-	3,386	-	-
Land held for resale	-	-	-	1,705,802
Total assets	<u>\$ 1,394,745</u>	<u>3,386</u>	<u>3,371,292</u>	<u>3,994,827</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 1,002,673	179,977	-	-
Accrued payroll	-	-	-	-
Due to other funds (note 4)	-	16,042	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>1,002,673</u>	<u>196,019</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Reserved for:				
Loans receivable	-	-	426,970	-
First time homebuyer loans receivable	-	-	-	773,147
Advance to the City of National City	-	-	-	-
Land held for resale	-	-	-	1,705,802
Debt service	-	-	-	-
Unreserved:				
Undesignated	<u>392,072</u>	<u>(192,633)</u>	<u>2,944,322</u>	<u>1,515,878</u>
Total fund balances	<u>392,072</u>	<u>(192,633)</u>	<u>3,371,292</u>	<u>3,994,827</u>
Total liabilities and fund balances	<u>\$ 1,394,745</u>	<u>3,386</u>	<u>3,371,292</u>	<u>3,994,827</u>

See accompanying notes to the basic financial statements.

Special Revenue Funds		Debt Service Fund	Capital Projects Fund	Totals
Nutrition Program	Low and Moderate Income Housing Program	Redevelopment Fund	Redevelopment Fund	Governmental Funds
-	4,810,592	2,535,167	4,990,351	18,191,055
-	-	2,792,885	2,063,567	4,856,452
129,975	-	-	85,716	215,691
-	743	2,970	185,548	189,261
-	73,958	295,830	-	369,788
-	1,807,333	-	333,594	2,567,897
-	437,659	-	-	1,210,806
-	-	-	1,514,912	1,514,912
-	-	-	235,000	235,000
-	-	-	15,449	18,835
-	360,000	-	10,839,334	12,905,136
<u>129,975</u>	<u>7,490,285</u>	<u>5,626,852</u>	<u>20,263,471</u>	<u>42,274,833</u>
25,082	228,991	-	3,304,922	4,741,645
-	-	-	52,023	52,023
1,498,870	-	-	-	1,514,912
-	-	-	922,500	922,500
<u>1,523,952</u>	<u>228,991</u>	<u>-</u>	<u>4,279,445</u>	<u>7,231,080</u>
-	1,807,333	-	333,594	2,567,897
-	437,659	-	-	1,210,806
-	-	-	235,000	235,000
-	360,000	-	10,839,334	12,905,136
-	-	5,626,852	-	5,626,852
<u>(1,393,977)</u>	<u>4,656,302</u>	<u>-</u>	<u>4,576,098</u>	<u>12,498,062</u>
<u>(1,393,977)</u>	<u>7,261,294</u>	<u>5,626,852</u>	<u>15,984,026</u>	<u>35,043,753</u>
<u>129,975</u>	<u>7,490,285</u>	<u>5,626,852</u>	<u>20,263,471</u>	<u>42,274,833</u>

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Reconciliation of the Balance Sheet of Governmental Funds
to the Government-Wide Statement of Net Assets

June 30, 2007

Fund balances of governmental funds	\$ 35,043,753
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets, net of depreciation, have not been included as financial
resources in governmental fund activity.

Capital assets	4,581,163
Accumulated depreciation	(1,704,498)

Long term debt and compensated absences have not been included in the
governmental funds:

Tax allocation bonds payable	(43,885,000)
Compensated absences	(101,836)

Accrued interest payable for the current portion of interest due on bonds payable has not been reported in the governmental funds.	<u>(166,645)</u>
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Net assets (deficit) of governmental activities	<u>\$ (6,233,063)</u>
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See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the year ended June 30, 2007

	Special Revenue Funds			
	Community Development Block Grant	Section 8 Housing Assistance	Home Loan Program	HOME Program
Revenues:				
Property taxes	\$ -	-	-	-
Subventions and grants	1,698,406	8,204,943	-	108,555
HILP payments	103	-	16,052	4,719
Interest income	-	-	-	-
Other income	353	30,035	560	-
Total revenues	<u>1,698,862</u>	<u>8,234,978</u>	<u>16,612</u>	<u>113,274</u>
Expenditures:				
Current:				
Personnel services	36,871	759,517	474	58,389
Special services	38,443	184,204	-	5,332
Community development	1,840,806	7,225,337	381	3,841
Capital outlay	-	5,277	-	-
Debt Service:				
Principal payments	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>1,916,120</u>	<u>8,174,335</u>	<u>855</u>	<u>67,562</u>
Excess (deficiency) of revenues over (under) expenditures	(217,258)	60,643	15,757	45,712
Other financing sources (uses):				
Transfers in (note 3)	-	-	-	-
Transfers out (note 3)	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	(217,258)	60,643	15,757	45,712
Fund balance (deficit), beginning of year, as restated (note 14)	<u>609,330</u>	<u>(253,276)</u>	<u>3,355,535</u>	<u>3,949,115</u>
Fund balance (deficit), end of year	<u>\$ 392,072</u>	<u>(192,633)</u>	<u>3,371,292</u>	<u>3,994,827</u>

See accompanying notes to the basic financial statements.

<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<u>Nutrition Program</u>	<u>Low and Moderate Income Housing Program</u>	<u>Redevelopment Fund</u>	<u>Redevelopment Fund</u>	<u>Governmental Funds</u>
-	2,708,649	10,834,596	-	13,543,245
367,245	-	-	60,849	10,439,998
-	-	-	-	20,874
-	17,782	123,421	727,813	869,016
216,414	218,397	-	370,186	835,945
<u>583,659</u>	<u>2,944,828</u>	<u>10,958,017</u>	<u>1,158,848</u>	<u>25,709,078</u>
437,915	225,386	-	1,437,223	2,955,775
103,735	151,353	83,850	1,909,283	2,476,200
261,934	15,846	-	3,971,515	13,319,660
-	-	-	2,117	7,394
-	-	2,000,000	-	2,000,000
-	-	2,033,220	65,050	2,098,270
<u>803,584</u>	<u>392,585</u>	<u>4,117,070</u>	<u>7,385,188</u>	<u>22,857,299</u>
(219,925)	2,552,243	6,840,947	(6,226,340)	2,851,779
-	-	686,783	4,640,000	5,326,783
-	(686,783)	(4,640,000)	-	(5,326,783)
-	(686,783)	(3,953,217)	4,640,000	-
(219,925)	1,865,460	2,887,730	(1,586,340)	2,851,779
<u>(1,174,052)</u>	<u>5,395,834</u>	<u>2,739,122</u>	<u>17,570,366</u>	<u>32,191,974</u>
<u>(1,393,977)</u>	<u>7,261,294</u>	<u>5,626,852</u>	<u>15,984,026</u>	<u>35,043,753</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Government-Wide Statements of Activities

Year ended June 30, 2007

Changes in fund balances of governmental funds	\$ 2,851,779
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Amounts reported for governmental activities in the statement of activities
differs from the amounts reported in the statement of activities because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the costs of those assets is allocated over their
estimated useful lives as depreciation expense.

Depreciation expense	(81,667)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,000,000
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The statement of activities includes accrued interest on long-term debt. This is the net change in interest payable expense for the current period.	5,580
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Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>153,050</u>
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Change in net assets of governmental activities	<u><u>\$ 4,928,742</u></u>
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See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Net Assets - Enterprise Funds

June 30, 2007

	Kimball Towers	Morgan Towers	Total
<u>Assets</u>			
Current assets:			
Cash and investments (notes 2 and 5)	\$ 147,907	7,827	155,734
Accounts receivable	381	-	381
Prepaid expense	32,749	35,753	68,502
Deposits	45,093	41,483	86,576
Total current assets	226,130	85,063	311,193
Restricted cash and investments with fiscal agent (notes 2 and 5)	1,051,300	667,818	1,719,118
Noncurrent assets:			
Capital assets (note 6):			
Nondepreciable assets	315,814	212,568	528,382
Depreciable capital assets, net of accumulated depreciation	5,037,947	3,244,410	8,282,357
Total capital assets	5,353,761	3,456,978	8,810,739
Total assets	6,631,191	4,209,859	10,841,050
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	55,726	88,175	143,901
Notes payable-due within one year (note 7)	-	168,586	168,586
Total current liabilities	55,726	256,761	312,487
Noncurrent liabilities:			
Tenant security deposit liability	45,092	41,483	86,575
Note Payable-due in more than one year (note 7)	-	2,853,463	2,853,463
Total noncurrent liabilities	45,092	2,894,946	2,940,038
Total liabilities	100,818	3,151,707	3,252,525
<u>Net Assets</u>			
Invested in capital assets, net of related debt	5,353,761	434,929	5,788,690
Restricted for:			
Housing	1,176,612	623,223	1,799,835
Total net assets	\$ 6,530,373	1,058,152	7,588,525

See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Revenues, Expenses and Changes in Net Assets - Enterprise Funds

Year ended June 30, 2007

	Kimball Towers	Morgan Towers	Total
Operating revenues:			
Rental income	\$ 501,087	478,656	979,743
Section 8 housing assistance payments	382,863	577,609	960,472
Other	7,448	7,857	15,305
Total operating revenues	891,398	1,064,122	1,955,520
Operating expenses:			
Maintenance and operation	792,370	654,149	1,446,519
Depreciation	187,350	223,818	411,168
Total operating expenses	979,720	877,967	1,857,687
Operating income (loss)	(88,322)	186,155	97,833
Nonoperating revenues (expenses):			
Interest income	47,701	25,146	72,847
Interest expense	-	(202,051)	(202,051)
Total nonoperating revenues (expense)	47,701	(176,905)	(129,204)
Change in net assets	(40,621)	9,250	(31,371)
Net assets at beginning of year	6,570,994	1,048,902	7,619,896
Net assets at end of year	\$ 6,530,373	1,058,152	7,588,525

See accompanying notes to the basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Statement of Cash Flows - Enterprise Funds

Year ended June 30, 2007

	Kimball Towers	Morgan Towers	Total
Cash flows from operating activities:			
Cash received from customers and government agencies	\$ 896,597	1,056,493	1,953,090
Cash payments to employees for services	-	(168,380)	(168,380)
Cash payments to suppliers for goods and services	(791,449)	(442,992)	(1,234,441)
Net cash provided by (used for) operating activities	105,148	445,121	550,269
Cash flows from investing activities:			
Purchase of property plant and equipment	(60,315)	(202,340)	(262,655)
Net cash provided by (used for) investing activities	(60,315)	(202,340)	(262,655)
Cash flows from financing activities:			
Principal payments on note payable	-	(158,005)	(158,005)
Interest income	47,701	25,146	72,847
Interest expense	-	(202,051)	(202,051)
Net cash provided by (used for) financing activities	47,701	(334,910)	(287,209)
Increase (decrease) in cash and investments	92,534	(92,129)	405
Cash and investments (including cash and investments with fiscal agent):			
Beginning of year	1,106,673	767,774	1,874,447
End of year	1,199,207	675,645	1,874,852
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	(88,322)	186,155	97,833
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	187,350	223,818	411,168
(Increase) decrease in accounts receivable	4,559	-	4,559
(Increase) decrease in prepaid expenses	641	513	1,154
(Increase) decrease in deposits	(521)	(878)	(1,399)
Increase (decrease) in accounts payable and accrued liabilities	921	34,635	35,556
Increase (decrease) in tenant security deposit liability	520	878	1,398
Total adjustments	193,470	258,966	452,436
Net cash provided by (used for) operating activities	\$ 105,148	445,121	550,269

Noncash investing, capital and financing activities

There were no significant noncash investing, capital or financing activities for the year ended June 30, 2007.

See accompanying notes to basic financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

Year ended June 30, 2007

(1) Summary of Significant Accounting Policies

The basic financial statements of the Community Development Commission of the City of National City (the "Commission"), a component unit of the City of National City (the "City"), have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies of the Commission.

(a) Description of the Reporting Entity

The Community Development Commission of the City of National City (the "Commission") was established in April 1967 pursuant to provisions of the California Health and Safety Code. The Commission is subject to the oversight responsibility of the City Council of the City of National City (the "City") and, accordingly, is a component unit of the City, although it is a separate legal entity. The Commission's primary purpose is to eliminate blighted areas within the City by encouraging development of residential, commercial, industrial, recreational and public facilities and to assist neighborhood redevelopment through residential property improvement loans and housing assistance payments to low and moderate income earners. The Commission accounts for its financial position and operations in accordance with generally accepted accounting principles in the United States applicable to governmental units.

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the Commission are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government – Wide Financial Statements

The Commission's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities for the Commission.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Government – Wide Financial Statements, (Continued)

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, all of the Commission's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the Commission in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Interfund transfers have been eliminated as prescribed by GASB Statement No. 34 in regards to interfund activities.

Fund Financial Statements

The underlying accounting system of the Commission is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the Commission's governmental and proprietary funds are presented after the government-wide financial statements. An accompanying schedule is presented for the governmental funds to reconcile and explain the differences in fund balance as presented in these statements to the net assets presented in the government-wide financial statements. The Commission has presented all major funds that met the applicable criteria.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Commission uses a sixty day availability period. The primary revenue sources, which have been treated as susceptible to accrual by the Commission, are property tax, special assessments, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the *measurable* and *available* criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed and revenue is recognized.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of *available spendable resources*. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of *available spendable resources* during a period.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of the GASB Statement No. 34.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Proprietary Funds

The Commission's enterprise funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Kimball Towers and Morgan Towers are charges to tenants for housing low and moderate income seniors, which is subsidized with Federal government funds under a Section 8 contract with the U.S. Department of Housing and Urban Development. Operating expenses for the proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Amounts paid to acquire capital assets are capitalized as assets in the proprietary fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the proprietary fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as an expenditure.

Major Funds

The Commission reports the following major governmental funds:

Community Development Block Grant – To account for activities related to the annual grant from the Department of Housing and Urban Development to assist in developing viable urban community by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low and moderate income persons.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus, (Continued)

Major Funds, (Continued)

Section 8 Housing Assistance – To provide rental assistance to low income families by subsidizing a portion of the rent directly to landlords on behalf of low income households.

Home Loan Program – To provide home improvement loans to low and moderate income families that meet certain conditions to qualify for the loan.

HOME Program – To account for activities related to the annual grant from the Department of Housing and Urban Development to administer programs designed to provide decent affordable housing, expand capacity of nonprofit housing providers, and to leverage private sector participation.

Nutrition Program – This program provides a friendly setting for low income and minority seniors to have a nutritionally balanced meal. The Nutrition Council and volunteers provide an effective framework to assist in the meal distribution, solicitation of funds and social services needs of clients.

Low and Moderate Income Housing Program – To account for the tax increment which is required to be set aside under Section 33334.2 of the California Health and Safety Code to increase, improve or preserve the community's supply of low and moderate income housing.

Redevelopment Debt Service Fund – To account for the accumulation of resources for the payment of principal, interest, and related costs of the Commission's long-term debt.

Redevelopment Capital Projects Fund – To account for the administrative expenditures of the Commission and redevelopment capital projects.

In addition, the Commission also reports the following major proprietary funds:

Kimball Towers – To account for the activities relating to the operations of Kimball Tower which use is restricted to housing low and moderate income seniors.

Morgan Towers – To account for the activities relating to the operations of Morgan Tower which use is restricted to housing low and moderate income seniors.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(c) Cash and Investments

The Commission's investment policy authorizes deposits in any of the approved investments contained in the California Government Code Sections 53600 et seq. During the year ended June 30, 2007, the Commission complied with these policies.

Investment income earned on unrestricted cash is allocated to the Commission's various funds as required by grant/loan agreements or at the Board's discretion.

The Commission pools its available cash with the City for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents. Cash and cash equivalents are combined with investments and displayed as cash and investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The Commission participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

(d) Land Held for Resale

Land held for resale is recorded at the lower of cost or estimated net realizable value. Fund balances are reserved in amounts equal to the carrying value of land and buildings held for resale, because such assets are not available to finance the Commission's current operations

(e) Use of Restricted/Net Assets

When an expense is incurred for purposes for which both restricted net assets are available, the Commission's policy is to apply restricted net assets first.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(f) Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans).

(g) Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as the liability is incurred for governmental fund types.

In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Rather, interest expense is simply recorded when it is due or paid.

(h) Long-Term Liabilities

Government-Wide Financial Statements – Long-term debt and other long-term obligations are reported as liabilities in the primary government’s governmental activity.

Fund Financial Statements – The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

(i) Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(j) Fund Balances – Reservations and Designations

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use of a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(k) Property Tax Increments

One of the Commission's primary sources of revenue is from property tax increments. The assessed valuation of all property within the Downtown Redevelopment Project area was determined on the date of adoption of the Redevelopment Plan. Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Commission; all taxes on the "frozen" assessed valuation of the property are allocated to the City and unrelated taxing agencies.

(l) Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

(2) Enterprise Fund Restricted Cash

In accordance with Department of Housing and Urban Development (HUD) requirements, the Morgan Towers Enterprise Fund maintains the following restricted cash accounts:

- Reserve for replacements of \$468,165 represents a monthly deposit of \$3,127, less current use for replacement, plus income earned thereon. The balance of this reserve will be used for the future replacement of property with HUD's approval.
- Residual receipts reserve of \$183,050 is an accumulation of surplus cash as calculated by HUD's Computation of Surplus Cash, Distributions and Residual Receipts, which can be expended only with HUD's approval.
- Reserve for MIP and insurance impounds of \$12,722 and \$3,881, respectively, totaling \$16,603, which represents amounts held for the future payment of property and mortgage insurance.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(2) Enterprise Fund Restricted Cash, (Continued)

Additionally, the Kimball Towers Enterprise Fund maintains the following HUD restricted cash accounts:

- Residual receipts reserve of \$283,102 is an accumulation of surplus cash as calculated by HUD's Computation of Surplus Cash, Distributions and Residual Receipts, which can be expended only with HUD's approval.
- Other restricted cash and investments totaling \$768,198 are included in the accompanying basic financial statements.

(3) Transfers In/Transfers Out

The following schedule summarizes the Commission's transfer activity:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Redevelopment Debt Service Fund	Low and Moderate Income Housing Fund	\$ 686,783 (a)
Redevelopment Capital Projects Fund	Redevelopment Debt Service Fund	<u>4,640,000</u> (b)
Total		<u>\$5,326,783</u>

- (a) The Low and Moderate Income Housing Fund transferred \$686,783 to the Redevelopment Debt Service Fund to fund a portion of the 1999 Tax Allocation Bonds debt service payments that related to low and moderate development.
- (b) The Redevelopment Debt Service Fund transferred funds to the Redevelopment Capital Projects Fund to provide for future capital project expenditures.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(4) Due From and To Other Funds

Interfund receivable and payable balances at June 30, 2007 are as follows:

<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Amount</u>
Redevelopment Capital Projects Fund	Section 8 Housing Assistance Fund	\$ 16,042
Redevelopment Capital Projects Fund	Nutrition Fund	<u>1,498,870</u>
Total		<u>\$1,514,912</u>

Interfund receivables and payables were created in order to eliminate deficit cash balances.

(5) Cash and Investments

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 18,346,789
Cash and investments with fiscal agent	<u>6,575,570</u>
Total cash and investments	<u>\$ 24,922,359</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 800
Deposits with financial institutions	2,964,165
Investments	<u>21,957,394</u>
Total cash and investments	<u>\$ 24,922,359</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Investments Authorized by the California Government Code and the Commission's Investment Policy

The table below identifies the investment types that are authorized for the Commission by the California Government Code and the Commission's investment policy. The table also identifies certain provisions of the California Government Code (or the Commission's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by fiscal agent that are governed by the provisions of debt agreements of the Commission, rather than the general provisions of the California Government Code or the Commission's investment policy.

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment in One Issuer</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	15%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by fiscal agent are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Commission's investment policy. The table below identifies the investment types that are generally authorized for investments held by fiscal agent. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None
Certificates of Deposit	None	None	None
Repurchase Agreements	None	None	None
Mortgage Pass-Through Securities	None	None	None
State Bonds or Notes	None	None	None
Municipal Bonds or Notes	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Commission manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Information about the sensitivity of the fair values of the Commission's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the Commission's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
U.S. Agency Securities	\$ 689,000	-	300,000	389,000
Negotiable Certificates of Deposit	1,558,000	586,000	877,000	95,000
Local Agency Investment Fund (LAIF)	14,853,942	14,853,942	-	-
Held by Fiscal Agent:				
Commercial Paper	2,345,000	2,345,000	-	-
Money Market Funds	<u>2,511,452</u>	<u>2,511,452</u>	-	-
Total	<u>\$ 21,957,394</u>	<u>20,296,394</u>	<u>1,177,000</u>	<u>484,000</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Commission's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>		
			<u>A</u>	<u>AAA</u>	<u>Not Rated</u>
U.S. Agency Securities	\$ 689,000	AAA	-	689,000	-
Negotiable Certificates of Deposit	1,558,000	N/A	-	-	1,558,000
Local Agency Investment Fund (LAIF)	14,853,942	N/A	-	-	14,853,942
Held by Fiscal Agent:					
Commercial Paper	2,345,000	A	-	-	2,345,000
Money Market Funds	<u>2,511,452</u>	A	<u>2,511,452</u>	-	-
Total	<u>\$21,957,394</u>		<u>2,511,452</u>	<u>689,000</u>	<u>18,756,942</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Concentration of Credit Risk

The investment policy of the Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Commission investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
General Electric	Commercial Paper	2,345,000

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, Commission investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the Commission to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
U.S. Agency Securities	\$689,000
Negotiable Certificates of Deposit	1,558,000

For investments identified herein as held by fiscal agent, the fiscal agent selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(5) Cash and Investments, (Continued)

Investment in State Investment Pool

The Commission is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

(6) Capital Assets

The following is a summary of capital assets for the year ended June 30, 2007:

	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2007</u>
<u>Government Activities:</u>				
Capital assets:				
Buildings and improvements	\$ 2,450,000	-	-	2,450,000
Machinery and equipment	<u>81,163</u>	<u>-</u>	<u>-</u>	<u>81,163</u>
Total cost of depreciable capital assets	<u>2,531,163</u>	<u>-</u>	<u>-</u>	<u>2,531,163</u>
Less accumulated depreciation:				
Buildings and improvements	(1,541,668)	(81,667)	-	(1,623,335)
Machinery and equipment	<u>(81,163)</u>	<u>-</u>	<u>-</u>	<u>(81,163)</u>
Total accumulated depreciation	<u>(1,622,831)</u>	<u>(81,667)</u>	<u>-</u>	<u>(1,704,498)</u>
Depreciable capital assets, net	908,332	(81,667)	-	826,665
Capital assets not depreciated:				
Land	<u>2,050,000</u>	<u>-</u>	<u>-</u>	<u>2,050,000</u>
Capital assets, net	<u>\$ 2,958,332</u>	<u>(81,667)</u>	<u>-</u>	<u>2,876,665</u>

Depreciation expense in governmental activities for capital assets for the year ended June 30, 2007 was \$81,667 which was allocated to community development.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(6) Capital Assets, (Continued)

	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2007</u>
<u>Business-Type Activities:</u>				
Depreciable assets:				
Buildings and improvements	\$ 15,501,663	130,221	-	15,631,884
Furniture and equipment	<u>270,115</u>	<u>132,434</u>	<u>-</u>	<u>402,549</u>
Total cost of depreciable assets	<u>15,771,778</u>	<u>262,655</u>	<u>-</u>	<u>16,034,433</u>
Less accumulated depreciation:				
Buildings and improvements	(7,292,582)	(407,040)	-	(7,699,622)
Furniture and equipment	<u>(48,326)</u>	<u>(4,128)</u>	<u>-</u>	<u>(52,454)</u>
Total accumulated depreciation	<u>(7,340,908)</u>	<u>(411,168)</u>	<u>-</u>	<u>(7,752,076)</u>
Depreciable capital assets, net	8,430,870	(148,513)	-	8,282,357
Capital assets not depreciated:				
Land	<u>528,382</u>	<u>-</u>	<u>-</u>	<u>528,382</u>
Capital assets, net	<u>\$ 8,959,252</u>	<u>(148,513)</u>	<u>-</u>	<u>8,810,739</u>

Depreciation expense in business-type activities for capital assets for the year ended June 30, 2007 was \$411,168, which was allocated to low and moderate housing.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year	Amount Due Beyond One Year
Governmental Activities:						
Bonds payable:						
1999 Tax Allocation Bonds	\$ 4,540,000	-	(105,000)	4,435,000	110,000	4,325,000
2004 Series Tax Allocation Bonds	5,640,000	-	(245,000)	5,395,000	250,000	5,145,000
2005 Series A Tax Allocation Bonds	25,865,000	-	(1,650,000)	24,215,000	1,705,000	22,510,000
2005 Series B Tax Allocation Bonds	<u>9,840,000</u>	<u>-</u>	<u>-</u>	<u>9,840,000</u>	<u>-</u>	<u>9,840,000</u>
Total bonds payable	45,885,000	-	(2,000,000)	43,885,000	2,065,000	41,820,000
Compensated absences	<u>254,886</u>	<u>-</u>	<u>(153,050)</u>	<u>101,836</u>	<u>61,149</u>	<u>40,687</u>
Total governmental activities	46,139,886	-	(2,153,050)	43,986,836	2,126,149	41,860,687
Business-Type Activities:						
Notes Payable	<u>3,180,054</u>	<u>-</u>	<u>(158,005)</u>	<u>3,022,049</u>	<u>168,586</u>	<u>2,853,463</u>
Total business-type activities	<u>3,180,054</u>	<u>-</u>	<u>(158,005)</u>	<u>3,022,049</u>	<u>168,586</u>	<u>2,853,463</u>
Total	<u>\$49,319,940</u>	<u>-</u>	<u>(2,311,055)</u>	<u>47,008,885</u>	<u>2,294,735</u>	<u>44,714,150</u>

1999 Tax Allocation Bonds

In June 1999, the Commission issued \$5,050,000 in Tax Allocation Bonds for the Q Avenue Redevelopment project. The bonds consist of \$1,085,000 in serial bonds which mature from 2000 to 2010 in amounts ranging from \$45,000 to \$125,000, and \$1,425,000 in term bonds which mature in 2019, and \$2,540,000 in term bonds which mature in 2029. Interest is payable semi-annually on February 1 and August 1, at interest rates ranging from 3.30% to 4.50%

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

The annual debt service requirements for the 1999 Tax Allocation Bonds outstanding at June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 110,000	219,586	329,586
2009	115,000	214,802	329,802
2010	120,000	209,690	329,690
2011	125,000	204,237	329,237
2012	130,000	198,175	328,175
2013	135,000	191,550	326,550
2014	145,000	184,550	329,550
2015	150,000	177,176	327,176
2016	155,000	169,550	324,550
2017	165,000	161,549	326,549
2018	175,000	153,050	328,050
2019	180,000	144,175	324,175
2020	190,000	134,925	324,925
2021	200,000	125,050	325,050
2022	210,000	114,543	324,543
2023	220,000	103,525	323,525
2024	235,000	91,866	326,866
2025	245,000	79,566	324,566
2026	260,000	66,625	326,625
2027	270,000	53,044	323,044
2028	285,000	38,822	323,822
2029	300,000	23,831	323,831
2030	<u>315,000</u>	<u>8,072</u>	<u>323,072</u>
Total	<u>\$4,435,000</u>	<u>3,067,959</u>	<u>7,502,959</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

2004 Tax Allocation Bonds

In June 2004, the Commission issued \$5,860,000 in Tax Allocation Bonds to finance a portion of the cost to construct a fire station, library, and community art center. The bonds consist of \$3,045,000 in serial bonds which mature from 2005-2015 in amounts ranging from \$220,000 to \$330,000, and \$1,085,000 in term bonds which matures in fiscal year 2029. Interest is paid semi-annually on February 1 and August 1, at interest rates ranging from 1.50% to 5.50%.

The annual debt service requirements for the 2004 Tax Allocation Bonds outstanding at June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 250,000	238,300	488,300
2009	260,000	231,348	491,348
2010	265,000	223,534	488,534
2011	275,000	214,685	489,685
2012	285,000	204,880	489,880
2013	295,000	194,145	489,145
2014	305,000	182,440	487,440
2015	2,045,000	122,307	2,167,307
2016	330,000	61,263	391,263
2017	-	54,250	54,250
2018	-	54,250	54,250
2019	-	54,250	54,250
2020	-	54,250	54,250
2021	-	54,250	54,250
2022	-	54,250	54,250
2023	-	54,250	54,250
2024	-	54,250	54,250
2025	-	54,250	54,250
2026	-	54,250	54,250
2027	345,000	45,625	390,625
2028	360,000	28,000	388,000
2029	<u>380,000</u>	<u>9,500</u>	<u>389,500</u>
Total	<u>\$5,395,000</u>	<u>2,298,527</u>	<u>7,693,527</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities. (Continued)

2005 Series A Tax Allocation Bonds

In January 2005, the Commission issued \$27,940,000 in Tax Allocation Bonds, Series A for the purpose of refunding the Commission's 2001 Series A Tax Allocation Bonds. Interest on the bonds is payable semiannually on August 1 and February 1, commencing August 1, 2005, at rates ranging from 2.9% to 4.85% per annum.

The annual debt service requirements for the 2005 Series A Tax Allocation Bonds outstanding at June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,705,000	1,091,543	2,796,543
2009	1,765,000	1,027,605	2,792,605
2010	1,840,000	957,005	2,797,005
2011	2,125,000	879,725	3,004,725
2012	3,060,000	788,350	3,848,350
2013	3,200,000	650,650	3,850,650
2014	3,345,000	503,450	3,848,450
2015	3,505,000	346,235	3,851,235
2016	<u>3,670,000</u>	<u>177,995</u>	<u>3,847,995</u>
Total	<u>\$24,215,000</u>	<u>6,422,558</u>	<u>30,637,558</u>

2005 Series B Tax Allocation Bonds

In January 2005, the Commission issued \$9,840,000 in Tax Allocation Bonds, Series B for the purpose of refunding the Commission's 2001 Series B Tax Allocation Bonds. Interest on the bonds is payable semiannually on August 1 and February 1, commencing August 1, 2005, at rates ranging from 3.8% to 5.25% per annum.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

The annual debt service requirements for the 2005 Series B Tax Allocation Bonds outstanding at June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	444,693	444,693
2009	-	444,693	444,693
2010	-	444,693	444,693
2011	-	444,693	444,693
2012	-	444,693	444,693
2013	-	444,693	444,693
2014	-	444,693	444,693
2015	-	444,693	444,693
2016	-	444,693	444,693
2017	760,000	444,693	1,204,693
2018	790,000	415,813	1,205,813
2019	825,000	385,003	1,210,003
2020	855,000	352,003	1,207,003
2021	890,000	317,803	1,207,803
2022	570,000	277,753	847,753
2023	595,000	253,528	848,528
2024	780,000	227,943	1,007,943
2025	815,000	194,013	1,009,013
2026	855,000	153,263	1,008,263
2027	555,000	110,513	665,513
2028	435,000	81,375	516,375
2029	250,000	58,538	308,538
2030	200,000	45,413	245,413
2031	210,000	34,913	244,913
2032	220,000	23,888	243,888
2033	<u>235,000</u>	<u>12,338</u>	<u>247,338</u>
Total	<u>\$9,840,000</u>	<u>7,391,030</u>	<u>17,231,030</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

Note Payable

The mortgage payable is secured by a deed of trust, bears interest at 6.5% and is payable to GMAC in the amount of \$3,718,928. The note is being repaid in monthly installments of \$30,005, including interest, through August 2019. The note is insured by HUD and is secured by substantially all property and equipment of the Morgan Towers Enterprise Fund.

The annual principal payments of the note payable outstanding at June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 168,586	191,474	360,060
2009	179,878	180,182	360,060
2010	191,923	168,137	360,060
2011	204,777	155,283	360,060
2012	218,492	141,568	360,060
2013	233,124	126,936	360,060
2014	248,736	111,324	360,060
2015	265,395	94,665	360,060
2016	283,170	76,890	360,060
2017	302,136	57,924	360,060
2018	322,368	37,692	360,060
2019	343,957	16,103	360,060
2020	<u>59,507</u>	<u>503</u>	<u>60,010</u>
Total	<u>\$3,022,049</u>	<u>1,358,681</u>	<u>4,380,730</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(7) Long-Term Liabilities, (Continued)

Defeasance of Debt

As of June 30, 2007, the outstanding balance of defeased issues are as follows:

2001 Series A Tax Allocation Bonds	\$26,440,000
2001 Series B Tax Allocation Bonds	9,530,000
1998 Tax Allocation Bonds	16,735,000

(8) Commitments and Contingencies

Grant funds received by the Commission are subject to review by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. The management of the Commission believes that such disallowances, if any, will not be significant.

(9) National City Joint Powers Financing Authority

The National Joint Powers Financing Authority ("JPFA") was created pursuant to a joint exercise of powers agreement entered into by and between the Commission and the City of National City on April 16, 1991. The purpose of such agreement was to provide for the financing and construction of the new police facility and Community Center. The JPFA is administered by a commission consisting of the members of the City Council and all voting power of JPFA resides in the Commission.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(10) Deferred Compensation

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The maximum salary deferral is \$15,500 per year.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust for the exclusive benefit of plan participants and/or beneficiaries. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. Since the plan is managed and assets are held in trust by an administrator other than the Commission, the assets are no longer included in the Commission's financial statements. The assets held by the plan administrator had a market value of \$632,271 at June 30, 2007.

(11) Employee Retirement System

Plan Description

The Commission contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and the Commission's Resolution. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

Contributions

Participants are required to contribute 8% of their annual covered salary. The Commission makes the contributions required of the Commission's employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and Commission contract with employee bargaining groups.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(11) Employee Retirement System, (Continued)

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2006 to June 30, 2007 has been determined by an actuarial valuation of the plan as of June 30, 2004. The contribution rate indicated for the period is 18.297% of payroll. The Commission's covered payroll for PERS was \$1,152,470 for the year ended June 30, 2007, while the Commission's total payroll for all employees was \$1,177,407 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2007, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2006 to June 30, 2007.

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	241,262	100%	-0-
6/30/06	337,857	100%	-0-
6/30/07	303,606	100%	-0-

(12) Accumulated Fund Deficits

The following funds reported deficits in fund balances as of June 30, 2007:

Special Revenue Funds:

Section 8 Housing Assistance	\$ (192,633)
Nutrition Program	(1,393,977)

Management intends on restoring accumulated fund deficits when future grant revenue becomes available.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to Basic Financial Statements

(Continued)

(13) Expenditures in Excess of Appropriations

Expenditures for the year ended June 30, 2007 exceeded the appropriations of the following funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Special Revenue Funds:			
Community Dev. Block Grant	\$1,677,171	1,916,120	(238,949)
Home Loan Program	-	855	(855)
Redevelopment Debt Service Fund	-	4,117,070	(4,117,070)

(14) Restatement of Beginning Fund Balances

The accompanying financial statements reflect adjustments that resulted in the restatement of beginning fund balances of the Section 8 Housing Assistance Fund and the Redevelopment Capital Projects Fund to reverse erroneous transfers made in previous years. The following summarizes the effect of the prior period adjustments to the beginning fund balances as of July 1, 2006:

	<u>Section 8 Housing Assistance</u>	<u>Redevelopment Capital Projects Fund</u>
Fund balance (deficit) – beginning of year, as previously reported	\$(1,418,747)	18,735,837
To adjust reimbursements made in previous years	<u>1,165,471</u>	<u>(1,165,471)</u>
Fund balance (deficit) – beginning of year, as restated	<u>\$ (253,276)</u>	<u>17,570,366</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Notes to the Required Supplementary Information

Year ended June 30, 2007

(1) Budgetary Information

The Commission adopts an annual budget prepared on the modified accrual basis of accounting for all governmental fund types. The Executive Director is required to prepare and submit to the Commission Board of Directors the annual budget of the Commission and administer it after adoption. Any revisions that alter the total appropriations must be approved by the Board of Directors. All annual appropriations lapse at fiscal year-end except for unexpended purchase orders or contracts and unexpended appropriations for capital projects. Total expenditures may not legally exceed total appropriations at the fund level.

(2) Required Disclosures

Expenditures for the year ended June 30, 2007 exceeded the appropriations of the following special revenue funds:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Special Revenue Funds:			
Community Dev. Block Grant	\$1,677,171	1,916,120	(238,949)
Home Loan Program	-	855	(855)
Redevelopment Debt Service Fund	-	4,117,070	(4,117,070)

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Community Development Block Grant - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 1,443,619	1,443,619	1,698,406	254,787
HILP payments	500	500	103	(397)
Other income	-	-	353	353
Total revenues	<u>1,444,119</u>	<u>1,444,119</u>	<u>1,698,862</u>	<u>254,743</u>
Expenditures:				
Current:				
Personnel services	-	-	36,871	(36,871)
Special services	18,102	18,102	38,443	(20,341)
Community development	<u>1,659,069</u>	<u>1,659,069</u>	<u>1,840,806</u>	<u>(181,737)</u>
Total expenditures	<u>1,677,171</u>	<u>1,677,171</u>	<u>1,916,120</u>	<u>(238,949)</u>
Net change in fund balance	(233,052)	(233,052)	(217,258)	15,794
Fund balance, beginning of year	<u>609,330</u>	<u>609,330</u>	<u>609,330</u>	<u>-</u>
Fund balance, end of year	<u>\$ 376,278</u>	<u>376,278</u>	<u>392,072</u>	<u>15,794</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Section 8 Housing Assistance - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 7,967,957	7,967,957	8,204,943	236,986
Other income	-	-	30,035	30,035
Total revenues	<u>7,967,957</u>	<u>7,967,957</u>	<u>8,234,978</u>	<u>267,021</u>
Expenditures:				
Current:				
Personnel services	995,133	995,133	759,517	235,616
Special services	102,890	102,890	184,204	(81,314)
Community development	7,618,112	7,618,112	7,225,337	392,775
Capital outlay	<u>4,500</u>	<u>4,500</u>	<u>5,277</u>	<u>(777)</u>
Total expenditures	<u>8,720,635</u>	<u>8,720,635</u>	<u>8,174,335</u>	<u>546,300</u>
Net change in fund balance	(752,678)	(752,678)	60,643	813,321
Fund balance (deficit), beginning of year, as restated	<u>(253,276)</u>	<u>(253,276)</u>	<u>(253,276)</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ (1,005,954)</u>	<u>(1,005,954)</u>	<u>(192,633)</u>	<u>813,321</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Home Loan Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
HILP payments	\$ -	-	16,052	16,052
Other income	-	-	560	560
Total revenues	-	-	16,612	16,612
Expenditures:				
Current:				
Personnel services	-	-	474	(474)
Community development	-	-	381	(381)
Total expenditures	-	-	855	(855)
Net change in fund balance	-	-	15,757	15,757
Fund balance, beginning of year	3,355,535	3,355,535	3,355,535	-
Fund balance, end of year	\$ 3,355,535	3,355,535	3,371,292	15,757

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

HOME Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 597,736	597,736	108,555	(489,181)
HILP payments	8,000	8,000	4,719	(3,281)
Total revenues	<u>605,736</u>	<u>605,736</u>	<u>113,274</u>	<u>(492,462)</u>
Expenditures:				
Current:				
Personnel services	58,246	58,246	58,389	(143)
Special services	1,527	1,527	5,332	(3,805)
Community development	810,000	810,000	3,841	806,159
Capital outlay	<u>537,963</u>	<u>537,963</u>	<u>-</u>	<u>537,963</u>
Total expenditures	<u>1,407,736</u>	<u>1,407,736</u>	<u>67,562</u>	<u>1,340,174</u>
Net change in fund balance	(802,000)	(802,000)	45,712	847,712
Fund balance, beginning of year	<u>3,949,115</u>	<u>3,949,115</u>	<u>3,949,115</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,147,115</u>	<u>3,147,115</u>	<u>3,994,827</u>	<u>847,712</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Nutrition Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ 303,615	303,615	367,245	63,630
Other income	<u>221,074</u>	<u>221,074</u>	<u>216,414</u>	<u>(4,660)</u>
Total revenues	<u>524,689</u>	<u>524,689</u>	<u>583,659</u>	<u>58,970</u>
Expenditures:				
Current:				
Personnel services	875,435	875,435	437,915	437,520
Special services	54,858	54,858	103,735	(48,877)
Community development	262,600	262,600	261,934	666
Capital outlay	<u>700</u>	<u>700</u>	<u>-</u>	<u>700</u>
Total expenditures	<u>1,193,593</u>	<u>1,193,593</u>	<u>803,584</u>	<u>390,009</u>
Net change in fund balance	(668,904)	(668,904)	(219,925)	448,979
Fund balance (deficit), beginning of year	<u>(1,174,052)</u>	<u>(1,174,052)</u>	<u>(1,174,052)</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ (1,842,956)</u>	<u>(1,842,956)</u>	<u>(1,393,977)</u>	<u>448,979</u>

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Low and Moderate Income Housing Program - Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Property tax allocated	\$ 2,463,592	2,463,592	2,708,649	245,057
Interest income	50,000	50,000	17,782	(32,218)
Other income	130,000	130,000	218,397	88,397
Total revenues	<u>2,643,592</u>	<u>2,643,592</u>	<u>2,944,828</u>	<u>301,236</u>
Expenditures:				
Current:				
Personnel services	444,666	444,666	225,386	219,280
Special services	851,939	851,939	151,353	700,586
Community development	<u>-</u>	<u>-</u>	<u>15,846</u>	<u>(15,846)</u>
Total expenditures	<u>1,296,605</u>	<u>1,296,605</u>	<u>392,585</u>	<u>904,020</u>
Excess (deficiency) of revenues over expenditures	<u>1,346,987</u>	<u>1,346,987</u>	<u>2,552,243</u>	<u>1,205,256</u>
Other financing sources (uses):				
Transfers out	<u>(825,723)</u>	<u>(825,723)</u>	<u>(686,783)</u>	<u>138,940</u>
Total other financing sources (uses)	<u>(825,723)</u>	<u>(825,723)</u>	<u>(686,783)</u>	<u>138,940</u>
Net change in fund balance	521,264	521,264	1,865,460	1,344,196
Fund balance, beginning of year	<u>5,395,834</u>	<u>5,395,834</u>	<u>5,395,834</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,917,098</u>	<u>5,917,098</u>	<u>7,261,294</u>	<u>1,344,196</u>

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SUPPLEMENTARY INFORMATION

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Redevelopment Fund - Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property tax allocated	\$ 9,854,368	9,854,368	10,834,596	980,228
Interest income	-	-	123,421	123,421
Total revenues	9,854,368	9,854,368	10,958,017	1,103,649
Expenditures:				
Current:				
Special services	-	-	83,850	(83,850)
Debt service:				
Principal payments	-	-	2,000,000	(2,000,000)
Interest and fiscal charges	-	-	2,033,220	(2,033,220)
Total expenditures	-	-	4,117,070	(4,117,070)
Excess (deficiency) of revenues over expenditures	9,854,368	9,854,368	6,840,947	(3,013,421)
Other financing sources (uses):				
Transfers in	686,783	686,783	686,783	-
Transfers out	(4,640,000)	(4,640,000)	(4,640,000)	-
Total other financing sources (uses)	(3,953,217)	(3,953,217)	(3,953,217)	-
Net change in fund balance	5,901,151	5,901,151	2,887,730	(3,013,421)
Fund balance, beginning of year	2,739,122	2,739,122	2,739,122	-
Fund balance, end of year	\$ 8,640,273	8,640,273	5,626,852	(3,013,421)

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Redevelopment Fund - Capital Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Subventions and grants	\$ -	-	60,849	60,849
Interest income	180,000	180,000	727,813	547,813
Other income	3,550,000	3,550,000	370,186	(3,179,814)
Total revenues	3,730,000	3,730,000	1,158,848	(2,571,152)
Expenditures:				
Current:				
Personnel services	1,656,666	1,656,666	1,437,223	219,443
Special services	2,809,334	2,809,334	1,909,283	900,051
Community development	13,155,701	13,155,701	3,971,515	9,184,186
Capital outlay	12,191,268	12,191,268	2,117	12,189,151
Debt service:				
Interest and fiscal charges	-	-	65,050	(65,050)
Total expenditures	29,812,969	29,812,969	7,385,188	22,427,781
Excess (deficiency) of revenues over (under) expenditures	(26,082,969)	(26,082,969)	(6,226,340)	19,856,629
Other financing sources (uses):				
Transfers in	3,704,173	3,704,173	4,640,000	935,827
Total other financing sources (uses)	3,704,173	3,704,173	4,640,000	935,827
Net change in fund balance	(22,378,796)	(22,378,796)	(1,586,340)	20,792,456
Fund balance, beginning of year, as restated	17,570,366	17,570,366	17,570,366	-
Fund balance (deficit), end of year	\$ (4,808,430)	(4,808,430)	15,984,026	20,792,456

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Board of Directors
Community Development Commission of the City of National City
National City, California

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the Community Development Commission of the City of National City ("Commission"), a component unit of the City of National City as of and for the year ended June 30, 2007, and have issued our report thereon dated February 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider items 07-01, 07-02, 07-03 and 07-04 that have been described in the accompanying schedule of findings and recommendations to be significant deficiencies in internal control. In addition, two significant deficiencies that were identified during the audit of the Morgan Towers Enterprise Fund have been reported to the Board of Directors of the Commission in a separate letter dated September 21, 2007.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements

will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, of the significant deficiencies described above, we consider item 07-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters which related to the audit of the Morgan Towers Enterprise Fund that are required to be reported under *Government Auditing Standards* and which have been reported to the Board of Directors of the Commission in a separate letter dated September 21, 2007. In addition, we noted other matter involving compliance with respect to the items tested that is described as follows:

The Commission sold property during the year which had been acquired with tax increment money. However, the Commission did not comply with the requirements of the Health and Safety Code Section 33433 which states that:

"...before any property of the agency acquired in whole or in part, directly or indirectly, with tax increment moneys is sold or leased for development pursuant to the redevelopment plan, the sale or lease shall first be approved by the legislative body by resolution after public hearing. Notice of the time and place of the hearing shall be published in a newspaper of general circulation in the community at least once per week for at least two successive weeks, as specified in Section 6066 of the Government Code, prior to the hearing. The agency shall make available, for public inspection and copying at a cost not to exceed the cost of duplication, a report no later than the time of publication of the first notice of the hearing mandated by this section. This report shall contain both of the following:

(A) A copy of the proposed sale or lease.

(B) A summary which describes and specifies all of the following:

- (i) The cost of the agreement to the agency, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the agency, plus the expected interest on any loans or bonds to finance the agreements.*

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- (ii) The estimated value of the interest to be conveyed or leased, determined at the highest and best uses permitted under the plan.*
- (iii) The estimated value of the interest to be conveyed or leased, determined at the use and with the conditions, covenants, and development costs required by the sale or lease. The purchase price or present value of the lease payments which the lessor will be required to make during the term of the lease. If the sale price or total rental amount is less than the fair market value of the interest to be conveyed or leased, determined at the highest and best use consistent with the redevelopment plan, then the agency shall provide as part of the summary an explanation of the reasons for the difference.*
- (iv) An explanation of why the sale or lease of the property will assist in the elimination of blight, with reference to all supporting facts and materials relied upon in making this explanation.*
- (v) The report shall be made available to the public no later than the time of publication of the first notice of the hearing mandated by this section.*

This report is intended solely for the information and use of the audit committee, management, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Nayer Hoffman McCann P.C.

Irvine, California
February 14, 2008

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Schedule of Findings and Recommendations

Year ended June 30, 2007

(07-01) Inadequate Internal Controls over Cash and Investments

During our review of internal controls over cash and investments, we noted that the Commission's cash and investments (held by both the Commission and its fiscal agent) had not been reconciled to the general ledger on a monthly basis. Sound internal controls dictate that the individual in charge of reconciling the cash and investment portfolio to the general ledger ensure that all cash and investment activities (i.e., purchases, sales, transfers, interest earnings) have been accurately and timely recorded in the general ledger. This procedure should be done soon after month end in order to efficiently detect and resolve any discrepancies or unauthorized transactions that might occur.

Recommendation

We recommend that the Commission reconcile and record all cash and investment activity to the general ledger on a regular monthly basis. We further recommend that the Commission consider the use of a third party custodian in performing investment transactions for all investments held. The involvement of a third party custodian (separate and distinct from the institution that executes the investment purchase on the Commission's behalf) enhances the internal controls over investments by decreasing the risk of fraud by the counter party, the party that makes the investment purchase.

(07-02) Internal Controls over Journal Entries

During our review of internal controls over journal entries we noted that computer access controls over the journal entry function within the general ledger computer application does not require another level of approval for entering journal entries. Therefore, it is possible that an accountant could enter a journal entry (which would automatically be recorded in the general ledger) and never prepare a journal entry form and as a result the journal entry might not ever be reviewed by someone independent of the preparation.

Recommendation

If the system cannot be programmed to restrict the person from both entering and approving journal entries, we recommend that the Finance Director or Financial Services Officer run a general journal report each month, which lists all journal entries made for that month. That individual should review that report to ensure that all significant entries were approved by someone other than the preparer and should document their review by signing that report.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Schedule of Findings and Recommendations

(Continued)

(07-03) Inadequate Records on Housing Project Capital Assets

The Commission's Morgan and Kimball Towers' housing projects have not maintained adequate detailed records relating to their capital assets. Although adequate detailed records are maintained for current year additions and deletions to capital assets (and related accumulated depreciation), the Commission should maintain detailed records that reconcile to the total ending capital assets and related accumulated depreciation recorded in the general ledger in order to ensure such assets exist and that depreciation is correctly calculated.

Recommendation

We recommend that the Commission perform an inventory on all capital assets owned by their housing projects and that such records reconcile to the total ending capital assets and related accumulated depreciation recorded in the general ledger.

(07-04) Controls over Misstatements Reflected in the Financial Statements

An important element of internal control is that management's review of the financial statements be highly effective to detect misstatements reflected in the year end financial statements. While this review currently contributes to the objectives of the financial reporting process, this review does not rise to the level necessary to detect misstatements associated with some of the more complex and technical elements reflected in the financial statements.

Currently, the audit firm is relied upon to prevent or detect misstatements in the year end financial statements. Auditing standards require that client systems be effective without reliance upon the audit process. This is because a key role of the auditor is to evaluate the effectiveness of the client's financial reporting control systems. The audit firm cannot be a part of the client's internal control system that is evaluated during the audit process.

Paragraph 19 of the Statement on Auditing Standards No. 112 requires that the auditor include in the report of significant control deficiencies any material adjustments detected by the audit process. For the year ended June 30, 2007, material adjustments detected by the audit process were as follows:

- Transfer of tax increment revenue from the Redevelopment Capital Projects Fund to the Redevelopment Debt Service Fund.

Recommendation

We recommend that management record material adjustments on an annual basis prior to the start of the audit.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY

Schedule of Findings and Recommendations

(Continued)

(07-04) Controls over Misstatements Reflected in the Financial Statements, (Continued)

In addition, in order to enhance management's review of the financial statements, we recommend that additional training be provided to raise the comfort level and effectiveness of staff with respect to their review of the year end financial statements.